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Havering
LONDON BOROUGH

PENSIONS COMMITTEE AGENDA

7.00 pm	Tuesday 15 December 2015	Committee Room 3A - Town Hall

Members 7: Quorum 3

COUNCILLORS:

Conservative (3)	**Residents' (2)**	**East Havering Residents' (1)**	**UKIP (1)**
John Crowder (Chairman) Melvin Wallace Roger Westwood	Stephanie Nunn Ray Morgon	Clarence Barrett	David Johnson (Vice-Chair)

Trade Union Observers

(No Voting Rights) (2)

John Giles, (Unison)
Andy Hampshire, GMB

Admitted/Scheduled Bodies Representative

(Voting Rights) (1)

Heather Foster-Byron

For information about the meeting please contact:
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Protocol for members of the public wishing to report on meetings of the London Borough of Havering

Members of the public are entitled to report on meetings of Council, Committees and Cabinet, except in circumstances where the public have been excluded as permitted by law.

Reporting means:-

- filming, photographing or making an audio recording of the proceedings of the meeting;
- using any other means for enabling persons not present to see or hear proceedings at a meeting as it takes place or later; or
- reporting or providing commentary on proceedings at a meeting, orally or in writing, so that the report or commentary is available as the meeting takes place or later if the person is not present.

Anyone present at a meeting as it takes place is not permitted to carry out an oral commentary or report. This is to prevent the business of the meeting being disrupted.

Anyone attending a meeting is asked to advise Democratic Services staff on 01708 433076 that they wish to report on the meeting and how they wish to do so. This is to enable employees to guide anyone choosing to report on proceedings to an appropriate place from which to be able to report effectively.

Members of the public are asked to remain seated throughout the meeting as standing up and walking around could distract from the business in hand.

AGENDA ITEMS

1 CHAIRMAN'S ANNOUNCEMENTS

The Chairman will announce details of the arrangements in case of fire or other events that might require the meeting room or building's evacuation.

2 APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS

(if any) - receive

3 DISCLOSURE OF PECUNIARY INTERESTS

Members are invited to disclose any pecuniary interest in any of the items on the agenda at this point of the meeting.

Members may still disclose any pecuniary interest in any item at any time prior to the consideration of the matter.

4 MINUTES OF THE MEETING (Pages 1 - 12)

To approve as correct the minutes of the meeting held on 24 November 2015 and authorise the Chairman to sign them.

5 INTERNAL CASH MANAGEMENT POLICY REVIEW (Pages 13 - 22)

6 PENSION FUND PERFORMANCE MONITORING FOR THE QUARTERENDED SEPTEMBER 2015 (Pages 23 - 38)

7 URGENT BUSINESS

To consider any other item in respect of which the Chairman is of the opinion, by reason of special circumstances which shall be specific in the minutes that the item should be considered at the meeting as a matter of urgency.

8 EXCLUSION OF THE PUBLIC

To consider whether the public should now be excluded from the remainder of the meeting on the grounds that it is likely that, in view of the nature of the business to be transacted or the nature of the proceedings, if members of the public were present during those items there would be disclosure to them of exempt information within the meaning of paragraph 1 of Schedule 12A to the Local Government Act 1972; and, if it is decided to exclude the public on those grounds, the Committee to resolve accordingly on the motion of the Chairman.

9 REVIEW OF FUND PERFORMANCE FOR THE QUARTER ENDING 30 SEPTEMBER 2015 (Pages 39 - 60)

10 PRESENTATION BY BAILLIE GIFFORD (Pages 61 - 88)

11 PRESENTATION BY STATE STREET GLOBAL ADVISORS (Pages 89 - 106)

Andrew Beesley
Committee Administration Manager

MINUTES OF A MEETING OF THE
PENSIONS COMMITTEE
Committee Room 3A - Town Hall
24 November 2015 (7.00 - 7.58 pm)

Present:

COUNCILLORS

Conservative Group	John Crowder (Chairman), Melvin Wallace and Roger Westwood
Residents' Group	Stephanie Nunn and Ray Morgon
East Havering Residents' Group	Clarence Barrett
UKIP Group	David Johnson (Vice-Chair)
Admitted/Scheduled Bodies Representatives:	Heather Foster-Byron
Trade Union Observers:	John Giles

All decisions were taken with no votes against.

The Chairman reminded Members of the action to be taken in an emergency.

17 **MINUTES OF THE MEETING**

The minutes of the meeting held on 22 September 2015 were agreed as a correct record and signed by the Chairman.

18 **COMMUNICATIONS STRATEGY**

Officers have reported that in accordance with Regulation 61 of the Local Government Pensions Scheme Regulations 2013 the Pension Team's Communication Strategy has been reviewed and up dated. The revised strategy would cover a three year period commencing 2016. The statement had to set out the following:

- Communications with members, representatives, prospective members and employing authorities;
- The provision of information and publicity about the scheme, to the above;
- Format, frequency and method of distributing such information, or publicity; and

- The promotion of the scheme to prospective members and their employers.

The Strategy has been prepared to communicate with the various stakeholders in a clear, plain English manner with as little jargon as possible. It also aimed to utilise modern media that was cost effective and efficient, placing emphasis on greater use of the pension website www.yourpension.org.uk/handr, as well as electronic notifications.

Officers have advised that the use of Member Self Service for access to pension records was intended to be rolled out in this financial year, which should free up Pension Administration team member time and also save on postage costs.

The Committee has considered and **approved** the Pension Team's Communications Strategy for the 3 year period 2016 - 2018.

19 **REVIEW OF ACTUARIAL SERVICES**

Officers have reported that they have undertaken a review of the performance of the Pension Fund's Actuary, Hymans Robertson, for the period 1 April 2014 - 30 September 2015. Since April 2015 the Actuary had undertaken the following:

(a) Attended officer level meetings;
(b) Provided data for government departments;
(c) Delivered Member training –
  i. Pensions Committee Induction 24 June 2014;
  ii. Local Pension Board Induction Training 8 June 2015;
(d) Provided the actuarial statement for the statement of accounts;
(e) Produced a mid-valuation funding update report;
(f) Participated in the setting up of Local Pension Board;
(g) Produced 'like for like' analysis of 2013 valuation;
(h) Produced IAS19 disclosure for the London Borough of Havering and FRS17 disclosures for the Colleges and Academies;
(i) Produced a report on workforce modelling (potential impact on the fund for changes in payroll and staffing);
(j) Provided modelling for 'Freedom and Choice' and fund implications;
(k) Provided actuarial factors to calculate the strain costs of early or ill health retirements;
(l) Provided the calculation and provision of contribution rate assessments relating to -
  i. 4 new Academies and 1 Technical College during 2014-15. Plus 1 new Academy and 1 Free School up to September 2015;
  ii. Provision of pension information memorandum including potential bond and employer rates for Leisure Services contract renewal;

iii. Bond rates and employer rates for Academies outsourcing contracts for traded Catering Services;
iv. Provision of newsletters and help with publications including, Discretions, TUPE manual, Freedom and Choice, High Earner and Changes to pension taxation factsheets;
v. Regular legislative updates, 60 second briefings.

Additionally, Hymans Robertson have been appointed to carry out Stage One of the Internal Disputes Resolution Procedure, and have reviewed one case in the period April 2014 to September 2015.

The cost of the actuarial services were:

- 1 April 2014 to 31 March 2015 £29k
- 1 April 2015 to September 2015 £18k

In addition, fees, including actuarial work have been recharged to other employees within the fund, as follows:

- 1 April 2014 to 31 March 2015 £17k
- 1 April 2015 to September 2015 £25k

The Committee were advised that Officers were very satisfied with the services provided by Hymans Robertson and accordingly have **noted** the report.

20 **REVIEW OF PENSION FUND CUSTODIAN**

Officers have informed that Committee that they have undertaken a review of the performance of the Pension Fund's Custodian, State Street. State Street have performed the role of Custodian since 31 December 2004. The role of the Global Custodian falls in to two main categories:

- Safe Keeping and Custody; and
- Investment Accounting and Reporting.

- **Safe Keeping and Custody**

This referred to the maintenance of accurate records and certificates of the ownership of stock and ensuring that dividend income and other distributions were received appropriately. The Custodian have also managed the tax position of the fund, claiming back any recoverable overseas, withholding tax paid on dividends received and maintaining the tax records of the fund.

- **Investment Accounting and Reporting**

State Street have produced accounting reports that were similar to those produced by the fund's investment managers. They have kept a record of the book costs and the holdings in the various asset classes and have also provided an independent market valuation of the fund. This has been done for each of the investment managers' portfolio as well as at the total fund level. State Street records have, therefore, been considered to be master records and these records have been used for producing the accounts. Reports currently produced by State Street have been in a format that could be used to comply with the International Financial Reporting Standards (IFRS).

Performance has been reviewed against a number of set criteria and Officers have indicated that they were satisfied with the safe keeping and custody functions provided by State Street custodians and have been pleased with the investment accounting and reporting functions.

Officers have expressed one minor concern which was that State Street have been dilatory in presenting invoices.

The Committee have been advised that the cost of the custodian service has been reduced in recent years due to the fund's use of pooled funds which consequently have reduced the custody and transaction changes.

The Committee has **noted** the report.

21 **REVIEW OF PENSION FUND INVESTMENT ADVISOR**

Officers have reported that they have carried out a review of the services provided by the Pension Fund's Investment Advisor, Hymans Robertson, for the period September 2014 to September 2015.

Myner's principles number 2 recommended that the Committee, in setting out its overall objective for the Fund, should take proper advice and appoint advisors in open competition. Hymans Robertson was appointed in 2012 and the contract runs until 31st March 2017 unless terminated or extended by the Council in accordance with the terms of the contract.

In accordance with Myner's Principal number 4 the Committee have to undertake an annual assessment of the performance of the Investment Advisor.

The services provided by Hymans Robertson have been generally in relation to the core services which included production of quarterly monitoring performance reports, attendance at Pensions Committee and providing questions for officer meetings with fund managers, investment advice and monitoring of fund managers. Additionally, Hymans Robertson have carried out a tendering exercise to search for a replacement multi asset manager. They have also undertaken a review of the passive equity mandate and bonds mandate. These additional tasks represented0 an extra cost to the fund.

The assessment of the service was against a set of criteria defined as part of the tender specification as set out below:

- Attendance at Committee Meetings;
- Investment Advice;
    - Setting Investment Strategy;
    - Investment Management structure;
    - Appointing an investment Manager;
    - Monitoring an investment Manager;
    - Other responsibilities (advising on statement of investment principles, custody, setting investment guidelines etc.);
- The value they will/could add to the decision making process;
- The level of Pro-Activity expected from the adviser; and
- Support arrangements.

The cost of the Investment Advisor for the period October 2014 to September 2015 has been £65,940, £28,382 for core services and £37,558 for the additional services. The cost of the additional services has been kept within budget.

Both officers and the Committee had indicated that they were satisfied with the service provided by Hymans Robertson and had continued confidence in the advice being given.

The Committee **noted** the report.

22 REVIEW OF THE STATEMENT OF INVESTMENT PRINCIPLES

The Committee were informed that in line with the Local Government Pensions Scheme Regulations (LGPS) and good practice the Council as an administrating authority had undertaken a review of the Statement of Investment Principles (SIP).

The statement had to cover the administrating authority's policy on:

(a) the types of investment to be held;
(b) the balance between different types of investments;
(c) risk, including the ways in which risks are to be measured and managed;
(d) the expected return on investments;
(e) the realisation of investments;
(f) the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments;
(g) the exercise of the rights (including voting rights) attaching to investments, if the authority has any such policy; and
(h) stock lending.

Officers have informed the Committee that the main changes were:

a) Reformatting the document and adding a contents page.
b) Updating the table showing the allocation of assets to managers by including two new columns to show that the mandates were the segregated or pooled elements and whether the mandate was active or passive,
c) Social Environmental and Ethical Considerations statement had been updated.

The Social Environmental and Ethical Considerations statement had been amended as follows:

"The Pensions Committee has carefully considered socially responsible investment in the context of its legal and fiduciary duties and obligations. In view of the objectives set out in this statement, the Pensions Committee takes the view that, non-financial factors should not drive the investment process to the detriment of the financial return of the Fund.

Whilst at this time the Pensions Committee has determined not to place any restrictions on Investment Managers for ethical, social and environmental reasons, the Pensions Committee considers it appropriate for the Investment Managers to take such factors into account when considering particular investments.

The Pensions Committee also believes that it does not have the relevant expertise or capacity to make frequent assessment of the financial impact of companies' activities. To that extent, the Pensions Committee has a policy of non-interference and the Investment Manager has full discretion over day to day decision making."

Officers have advised the Committee that the SIP was only partially compliant with Myner's Principle number 5 'Responsible ownership.' In the past the Committee have accepted the principles laid down in the 'Institutional Shareholders Statement of Responsibilities' but this has been replaced by the 'UK Stewardship Code'.

The Committee has:

1. **Agreed** the amendments to the Statement of Investment Principles, subject to the final version including the minor changes that were omitted in the distributed version;
2. **Agreed** the administrating authority's position in respect of compliance against the Myner's investment principles; and
3. **Agreed** that officers produce a further report on the implications of compliance with the UK Stewardship Code.

23 **REVIEW OF GOVERNANCE COMPLIANCE STATEMENT**

Officers have informed the Committee that in line with the Local Government Pensions Scheme Regulations (LGPS) 2013 (as amended), and LGPS (Governance) Regulations 2015 the Council as an administering authority has a duty to keep the Governance Compliance Statement under review and make revisions as appropriate.

Since the 1 April 2008 it has been a requirement for the administering authority to prepare and publish a report outlining the extent of compliance against a set of best practice principles published by the Department of Communities and Local Government (DCLG).

The report has set out the Pension Fund's draft Governance Compliance Statement for November 2015 and has highlighted where changes might be required.

Changes to the Statement have been made to reflect the fact that the Council has established a Local Pension Board in accordance with Regulation 106 of the LGPS (Governance) Regulations 2015. Under the same regulations the Local Government Pension Scheme Advisory Board has been established to provide advice to the Secretary of State on the desirability of making changes to the Scheme and providing advice to administrating authorities and local pension boards in relation to the effective and efficient administration and management of the scheme.

Officers have highlighted the fact the Statement was not fully compliant against the set of best practice principles. Principle B - Representation item (a) (iii) stated that 'to meet the required standards all stakeholders are offered the opportunity to be represented by, where appropriate, appointing independent observers.'

The Committee have **reaffirmed** their previous decision not to employ the services of an independent professional observer on the basis that the current monitoring arrangements were sufficient for the size of the funds.

The Committee have **agreed** the Statement as amended.

24 **KNOWLEDGE AND SKILLS TRAINING STRATEGY**

The Committee have been advised that previously the values outlined in the Training Strategy have been outlined in the Business Plan. It has been felt that now was the right time to agree a separate Training Strategy for the Havering Pension Fund. The Strategy would assist the Pensions Committee and Local Pension Board achieve their training objectives and introduce a means of measuring progress and achievements.

The Local Government Pension Scheme (LPGS) (Management and Investment of Funds) Regulations 2009 regulations, paragraph 12(3) stated that administrating authorities must prepare and publish a statement which stated the extent to which an administrating authority complied or did not comply with guidance issued by the Secretary of State. Where it did not comply it must state reasons for non-compliance. (This was known as the Myner's principles).

The first of these principles, Effective decision making, required that Administrating authorities should ensure that:

- Decisions were taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and

- those persons or organisations had sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest

Guidance as issued from the Secretary of State would be the guidance as published by the Chartered Institute of Public Finance and Accountancy (CIPFA) in January 2010 called 'Pensions Finance Knowledge and Skills Framework' and then later formalised into a Code of Practice in October 2011, effective from 1 April 2012. This Code of Practice was updated in July 2013 to reflect the Public Service Pensions Bill and effective for financial years beginning on or after 1 April 2014.

The Administering Authority must also disclose in their Annual Report a statement to demonstrate compliance with the code of practice, such as a report on member training undertaken during the year (if not reported elsewhere).

In line with The Public Service Pensions Act 2013 the Pensions Regulator had issued a code of practice "Governance and Administration of Public Service Pension Schemes" which required pension board members by law:

- to be conversant with the rules of the scheme and any document recording policy about the administration of the scheme, and

- have knowledge and understanding of the law relating to pensions, and any other matters which are prescribed in regulations.

- The degree of knowledge and understanding required was that appropriate for the purposes of enabling the individual to properly exercise the functions of a member of the Pension Board.

- it was the responsibility of individual pension board members to ensure that they have the appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a member of the Pension Board.

Guidance has also been issued by the then Shadow Scheme Advisory Board in February 2015 and included guidance that stated that Local Pension Board members:

- should establish and maintain a policy and framework to address the knowledge and understanding requirements that apply to its members. Where the Pensions Committee had an existing knowledge and understanding policy already in place, it may be sensible to see if this could be incorporated to cover both the Pensions Committee and the Local Pension Board to avoid unnecessary duplication,

- would be required to undertake a personal training needs analysis and regularly review their skills, competencies and knowledge to identify gaps or weaknesses, and

- were required to be able to demonstrate their knowledge and understanding and to refresh and keep knowledge up to date and required to maintain a written record of training and development.

The Committee has been informed that CIPFA's Knowledge and Skills Framework covered six relevant areas of knowledge for members of decision making bodies, namely:

- Pensions Legislative and Governance Context;
- Pensions Accounting and Auditing Standards;
- Financial Services Procurement and Relationship Management;
- Investment Performance and Risk Management;
- Financial Markets and Products Knowledge; and
- Actuarial Methods, Standards and Practices.

To assist in achieving the training strategy objectives the fund should aim for full compliance with the CIPFA Knowledge and Skills Framework as shown in the six areas above and they would form the core skill sets against which progress and achievement would be measured. The Fund would also aim to comply with the knowledge and skills element of The Pensions Regulator Code of Practice and any other appropriate LGPS guidance relating to knowledge and skills.

CIPFA Knowledge and Skills framework included a self-assessment of training needs. This would be issued to the Local Pension Board members and reissued to members of the Pensions Committee. This would be used to identify the knowledge and skills gap so that training could be targeted to specific areas.

The CIPFA's Knowledge and Skills Framework self-assessment form would also become a personalised training plan for each member and would be used to document areas of learning and continued development. These would be monitored annually and progress and achievements would be reported in the pension fund annual report.

The Committee have:

1. **Approved** the Havering Pension Fund Training Strategy;
2. **Approved** the basis for measuring progress and achievement; and
3. **Noted** that it was the responsibility of each committee member, board member and officer to adhere to the training strategy and maintain the required level of knowledge and skills.

25 WHISTLEBLOWING REQUIREMENTS OF THE PENSIONS ACT

The Committee have been reminded that on 6 April 2005 the whistle blowing requirements of the Pensions Act 2004 had come into force. The basic requirement of this law was that nearly all persons who were involved with a pension scheme had a duty to report ‘as soon as reasonably practicable’ to the Pensions Regulator where they had ‘reasonable cause to believe’ that there had been a breach of law ‘relevant to the administration of the scheme’ which was ‘likely to be of material significance to the Regulator’. The Pensions Regulator had issued a Code of Practice (CP1) that set out guidance on how to comply.

The Code has discussed each of these issues, in particular what the regulator saw as materially significant.

For administering authorities and employers, an initial requirement had been to establish procedures to identify any breaches, and then evaluate and if appropriate report to the Regulator. These have been put in place during 2005 and part of this procedure was to undertake an annual review. This report represented the annual review for the year up to 30 September 2015.

Since the requirement had come into force on the 5 April 2005, no possible breaches have been reported to the Deputy Chief Executive Communities and Resources.

The Committee have **noted** the report.

26 COLLECTIVE INVESTMENT VEHICLE (CIV)

In accordance with section 100B(4) of the Local Government Act 1972 the Chairman has agreed that the following item should be considered as the Pensions CIV Sectorial Joint Committee required a decision before the next meeting of the Pensions Committee.

Officers have informed the Committee that the CIV has now gained all the FCA approvals it required to commence business. Four Fund Managers have indicated they would be interested in participating, one of whom was

Baillie Gifford who managed two of the Pension Fund mandates. They have indicated that they were prepared to offer lower management fees provided all the administering authorities currently investing with them joined the sub-fund.

After discussion and debate the Committee have indicated their intention to move the Baillie Gifford mandates to the CIV, subject to our Investment Advisors carrying out due diligence on documentation.

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Chairman

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Havering
LONDON BOROUGH

PENSIONS COMMITTEE

15 December 2015

Subject Heading:	**INTERNAL CASH MANAGEMENT POLICY REVIEW**
CMT Lead:	**Andrew Blake Herbert**
Report Author and contact details:	***Debbie Ford*** ***Pension Fund Accountant*** ***01708432569*** ***Debbie.ford@onesource.co.uk***
Policy context:	To maintain a cash flow policy for internally managed pension fund cash in order that the fund can meet its ongoing benefit payments
Financial summary:	To establish and manage minimum and maximum working cash balances

The subject matter of this report deals with the following Council Objectives

Havering will be clean and its environment will be cared for	[]
People will be safe, in their homes and in the community	[]
Residents will be proud to live in Havering	[x]

SUMMARY

The attached report, Appendix 1 presents an Internal Cash Management Policy, setting out the rules relating to the balance of cash held by the fund based on short- term cash flow forecasts.

RECOMMENDATIONS

The Committee consider and agree the reviewed Cash Management Policy.

REPORT DETAIL

1. Background

1. Hymans Robertson, the Havering Pension Fund's Investment Advisor developed the internal cash management policy and this was presented to the Pensions Committee at the 25 June 2012. This policy has now been reviewed and follows on from the original work undertaken by Hymans and the cash flow analysis used to review the policy covers the period from 1 April 2012 to 31 March 2015.

2. Cash flow management is an essential part of the administration of the pension scheme as the fund has to meet its ongoing benefit payments. The Fund provides benefits for employees, which include retirement pensions, death grants and other lump sum payments.

3. These benefit payments can be split between the more predictable payments, such as monthly pension payroll or the more unpredictable payments such as transfer value payments, retirement lump sums or death benefits.

4. The Fund is financed by contributions from employees, employers and from profits, interest and dividends on its investments.

5. The attached report contains :

    - Policy
    - Introduction
    - Analysis of Cash Flow, both Predictable and Unpredictable
    - Working Cash Balance
    - Trigger levels
    - Disinvestment arrangements

IMPLICATIONS AND RISKS

Financial implications and risks:

Developing and maintaining a cash flow management policy will offer some degree of certainty that the fund can meet its on-going payments.
It is therefore desirable that;

- The cash balance maintained is not so large as to reduce the potential for future investment returns
- The cash balance maintained is not so small so as to create the risk that the balance will be easily exhausted, and thus disinvestments will be required either frequently or at short notice.
- Assets are realised in the most efficient manner possible.

Legal implications and risks:

None arise from this report.

Human Resources implications and risks:

None arise from this report.

Equalities implications and risks:

There are no equality implications or risks as a result of this report.

BACKGROUND PAPERS

Background Papers List
Pension Fund Cash Flow Analysis 1 April 2012 to 31 March 2015

Cash Management Policy

The purpose of this document is to present a suitable cash management policy, setting out rules relating to the balance of cash held by the Fund based on short-term cashflow forecasts.

Policy

Based on current cashflow requirements and investment strategy, the following policy is to be adopted:

- A target working cash balance of at least £5m. This amount should be permitted to vary between £3m and £6m.
- This cash balance is sufficient to cover one month of predictable benefit outgoings plus three months unpredictable outgoings.
- The cash balance will be replenished by monthly contributions (which are broadly equal to predictable monthly outgoings) and by income drawn from the UK property portfolio.
- The working cash balance should be reviewed on a monthly basis immediately following receipt of contributions, and:
- In the event that cash levels fall below the lower limit, assets will be disinvested from the most overweight allocation within the investment strategy so as to increase the working cash balance to £5 million.
- In the event that cash levels rise above the upper limit:,
    - cash will be invested in the most underweight allocation within the investment strategy so as to reduce the working cash balance to £5 million, or
    - to be retained above the upper limit at the discretion of the Deputy Chief Executive Communities and Resources to meet unforeseeable volatile unpredictable payments.
- This policy should be reviewed in the event of an increase in monthly cash outflow of 5% from current levels.

Introduction

Cashflow management is an integral element of the administration of any pension scheme. The Fund has to meet its ongoing benefit payments. These may be predictable payments, such as the monthly pension payroll, or more unpredictable payments such as transfer value payments, retirement lump sums or death benefits.

In order to be able to meet these benefit payments, the Fund therefore requires ready access to cash. Cash may be obtained from payments into the Fund in the form of contributions, from income drawn from the Fund's assets or by the sale of assets.

In developing a cashflow management policy, it is desirable that:

- The cash balance maintained is not so large as to reduce the potential for future investment returns.
- The cash balance maintained is not so small so as to create a risk that the balance will be easily exhausted, and thus disinvestments will be required either frequently or at short notice.
- Assets are realised in the most efficient manner possible.

Analysis of Historical Cash Flow

The initial analysis of the cash flow in and out of the fund was undertaken by Hymans for the period 1 April 2011 to 31 March 2012. This focussed on establishing the predictable level of monthly income and outgoings and considered the range of unpredictable outgoings.

Further analysis of the cash flow movements follows on from that initial analysis and covers the period 1 April 2012 to 31 March 2015.

Predictable Cashflow

The Fund needs to maintain a cash balance in order to meet predictable outgo.

- Predictable income includes employer and employee contributions
- Predictable outgoings include benefit payments.

Table 1 below shows the predictable income and outgoings (in £m) over the period 1 April 2012 to 31 March 2015.

Table 1	**2012/13**	**2013/14***	**2014/15**	**Total over 3 years**	**Average per month**
	£m	**£m**	**£m**	**£m**	**£m**
Income	28.7	30.2	31.2	90.1	2.5
Outgoing	26.1	27.6	29.4	83.1	2.3
Net	**2.6**	**2.6**	**1.8**	**7.0**	**0.2**

**Excludes £11.5m additional contributions as came in and out in the same month.*

From Table 1 it can be seen that on a predictable basis the Fund is slightly positive. Average income over the three year period was £2.5m per month giving an average net income of £0.2m per month.

Note that a relatively small change in membership of the pension scheme (i.e. a shift from active to pensioner) or the continual passage of time may result in net predictable income being consistently negative in future.

Unpredictable Cashflow

The Fund also needs to maintain a cash balance in order to meet unpredictable payments.

– Unpredictable income includes transfers in from other pensions and strain costs.
– Unpredictable outgoings include transfers out to other funds, retirement allowances, death benefits and ill health allowances.

Table 2 below shows the unpredictable income and outgoings (in £m) over the period 1 April 2012 to 31 March 2015.

Table 2	**2012/13**	**2013/14**	**2014/15**	**Total over 3 years**	**Average per month**
	£m	**£m**	**£m**	**£m**	**£m**
Income	3.9	3.3	2.0	9.2	0.3
Outgoing	8.8	7.4	7.5	23.7	0.7
Net	**(4.9)**	**(4.1)**	**(5.5)**	**(14.5)**	**(0.4)**

From Table 2 it can be seen that unpredictable net cashflow is very volatile and on average is cash flow negative. The average net monthly outgoings were (£0.4m). Monthly net outgoings range between (£0.1m) and (£1.1m)

Recognising that, once unpredictable outflow is taken into account, the Fund is cash flow negative (£0.2m).

Unpredictable cashflow including drawdown & cash injections

Consideration can also be given to drawing the income generated by the Fund's assets, this being more cost effective than realising assets.

Based on current allocations to each mandate the Fund can draw down the following income, each quarter, from both Royal London Asset Management and UBS:

- Royal London UK Bond Portfolio - £850,000
- UBS Triton Property Fund - £300,000 (already drawn down)

The Fund can thus realise an additional £1.2m in cash each quarter.

Income from the other investments is reinvested with the respective portfolios as part of the mandate arrangements. Currently income from the property units is already drawn down, rather than being reinvested. The rental income currently drawn down is included within the drawdown column in Table 3 that follows in this report.

Arrangements are in place to retain income from the bond portfolio if required although this has not yet been necessary and the least desirable option as this may have an impact on the performance target for RLAM and realising income will ultimately create an imbalance in the overall asset allocation which will need to be managed and in the event of any breach of agreed tolerance margins, the Fund would need to be rebalanced

In addition to drawing cash from the property mandate cash injections are made by Havering Council to protect the fund from decreasing payrolls.

Table 3 shows the effect of including the drawdown of rental income and cash injections made by the London Borough of Havering over the period 1 April 2012 to 31 March 2015.

Table 3	**2012/13**	**2013/14**	**2014/15**	**Total over 3 years**	**Average per month**	**Drawdown & Cash injection over 3 years**	**Average per month**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	
Income	3.9	3.3	2.0	9.2	0.3	14.3	0.4
Outgoing	8.8	7.4	7.5	23.7	0.7	0	0
Net	**(4.9)**	**(4.1)**	**(5.5)**	**(14.5)**	**(0.4)**	**14.3**	**0.4**

From Table 3 it can be seen that the drawdown of rental income and cash injections offsets the negative unpredictable cash position.

Overall the cash position is marginally positive.

Working Cash Balance

In establishing an acceptable working cash balance, we wish to determine a sum that is sufficient to cover predictable benefit payments, taking account of expected cashflow, whilst also providing a buffer to meet unpredictable payments together with any deterioration in cash inflow.

It is proposed that the working cash balance (immediately after receipt of monthly contributions) is set as £5 million, being the sum of:

- £2.3m, the approximate current average predictable monthly outgoings, and

- £2.7m, roughly three times the average monthly unpredictable monthly outgo (£0.4m x 3 = £1.2m) and 1.5 times the highest monthly unpredictable outgo (£1.1m x 1.5= £1.6) over the previous twelve month period.

Targeting a cash balance of £5m should provide the Fund with sufficient leeway to meet all payments due on a monthly basis without facing a forced requirement to disinvest. Cash at this level represents approximately 1% of total Fund assets.

Trigger Levels

Obviously, cash levels will vary as benefits are paid and it is therefore appropriate to review the Fund's cash balance periodically in order that the level of cash held can be adjusted.

The cash balance is reviewed on a monthly basis immediately after receipt of monthly contributions and that the following triggers are used as a basis for action:

- In the event that the cash balance at the start of the month is less than £2.5m, then the cash balance should be topped up to the £5million by way of disinvestment. This level recognises that some discretion may be exercised over the timing of the unpredictable payments.

- In the event that the cash balance at the start of the month is continually greater than £6m, then cash may be invested to reduce the cash balance to £5m.

- In the event that the monthly pension payroll increases or decreases by more than 5% above current levels (i.e. above £2.6m), then this policy should be reviewed.

Disinvestment Arrangements

In agreeing the disinvestments, we should also take account of the underlying liquidity of each of the Fund's investments together (and therefore how readily available cash actually is) alongside the administrative complexity of instructing frequent disinvestments.

Given the illiquidity of the Property mandate, we propose that this be excluded as a potential source of cash (except for rental income). Further, we propose the Ruffer Absolute Return mandate being a dynamic mandate and therefore having the objective of stabilising overall investment returns also be excluded as a potential source of cash.

The choice of mandate for disinvestment purposes should be based on the current asset allocation relative to the target allocation, with the disinvestment made from the most overweight allocation.

In the event that cash is available for investment, that cash should be invested in mandate which is most underweight relative to its target allocation. For the purposes of investment, all mandates should be included.

Review of policy

In the event that monthly benefit outgoings increase by more than 5% above current levels (£130k per month), the cash policy be reviewed.

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Havering
LONDON BOROUGH

PENSIONS COMMITTEE
15 DECEMBER 2015

Subject Heading:	**PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED SEPTEMBER 2015**
CMT Lead:	**Andrew Blake Herbert**
Report Author and contact details:	***Debbie Ford*** ***Pension Fund Accountant*** ***01708432569*** ***Debbie.ford@onesource.co.uk***
Policy context:	Pension Fund Managers' performances are regularly monitored in order to ensure that the investment objectives are being met.
Financial summary:	This report comments upon the performance of the Fund for the period ended 30 September 2015

The subject matter of this report deals with the following Council Objectives

Havering will be clean and its environment will be cared for	[]
People will be safe, in their homes and in the community	[]
Residents will be proud to live in Havering	[x]

SUMMARY

This report provides the Committee with an overview of the performance of the Havering Pension Fund investments for the quarterly period to 30 September 2015. The performance information is taken from the Quarterly Performance Report supplied by each Investment Manager, the WM Company Quarterly Performance Review Report and Hymans Monitoring Report.

The net return on the Fund's investments for the **quarter** to 30 September 2015 was **-3.1%.** This represents under performance of **-2.6%** against the tactical benchmark and an under performance of **-8.4%** against the strategic benchmark.

The overall net return of the Fund's investments for the **year** to 30 September 2015 was **2.6%.** This represents under performance of **-1.6%** against the tactical combined benchmark and under performance of **-12.2%** against the annual strategic benchmark. The annual strategic benchmark is a measure of the fund's performance against a target based upon gilts + 1.8% (the rate which is used in the valuation of the funds liabilities). The implications of this shortfall are discussed further in paragraphs 1.2 and 1.3 below.

It is now possible to measure the individual managers' annual return for the new tactical combined benchmark since they became active on the 14th February 2005. These results are shown later in the report.

RECOMMENDATIONS

That the Committee:

1) Considers Hymans performance monitoring report and presentation (Appendix A).
2) Receive a presentation from Ballie Gifford for their Diversified Growth Fund and Global Alpha Fund and from the Fund's UK/Global Equities Passive Manager (State Street Global Assets).
3) Notes the summary of the performance of the Pension Fund within this report.
4) Considers the quarterly reports provided by each investment manager.
5) Considers and notes any Corporate Governance issues arising from voting as detailed by each manager.
6) Considers any points arising from officer monitoring meetings (section 4 refers).
7) Notes the analysis of the cash balances (paragraphs 2.2 and 2.3 refers).

REPORT DETAIL

1. Background

1.1 The Fund undertook a full review of the Statement of Investment Principles (SIP) during 2012/13 and following the appointments of the Multi Asset Managers this almost completes the fund's restructuring. The Fund is still considering options for an investment in Local Infrastructure.

1.2 A strategic benchmark has been adopted for the overall Fund of Gilts + 1.8% (net of fees) per annum. This is the expected return in excess of the fund's liabilities over the longer term. The strategic benchmark measures the extent to which the fund is meeting its longer term objective of reducing the funds deficit. This current shortfall is driven by the historically low level of interest rates which drive up the value of gilts (and consequently the level of the fund liabilities). Whether interest rates will remain at those levels for the longer term and the implications for the Fund's Investment strategy is a matter which will need to be considered at the time of the next actuarial review.

1.3 Our Investment Advisors have stated that there are things that could have been done to protect the fund against falling interest rates (e.g. hedging) but they do not believe that this action would have been appropriate. The Fund is already partially protected through its investments with Royal London and given the long term nature of the fund they believe that the fund objective of pursuing a stable investment return remains appropriate. They also note that although the value placed on the liabilities has risen as a result of falling yields, inflations and expectations of future inflation have fallen meaning that the actual benefit cashflows expected to be paid from the fund will be lower.

1.4 Individual manager performance and asset allocation will determine the out performance against the strategic benchmark. Each manager has been set a specific (tactical) benchmark as well as an outperformance target against which their performance will be measured. This benchmark is determined according to the type of investments being managed. This is not directly comparable to the strategic benchmark as the majority of the mandate benchmarks are different but contributes to the overall performance.

1.5 At the Pension Committee meeting held on the 23 June 2015 members agreed to:

- adopt the FTSE RAFI 3000 Index in respect of 50% of the passive equity mandate managed by SSgA with the balance continuing to be managed against a market cap weighted index,
- rebalance the allocations between SSgA and Baillie Gifford so as to increase the weighting to the SSgA mandate to 12.5% of assets, such that the target 25% allocation to equities is split equally between the two managers, and
- increase the return objective to 1.25% for the bond mandate (managed by RLAM) and allow the manager greater flexibility in the management of the mandate and the ability to invest a proportion of the mandate in higher yielding bonds.

The asset allocation table below reflects the above changes:

Asset Class	Target allocation	Investment Manager/ product	Segregated /pooled	Active/ Passive	Benchmark and Target
UK/Global Equity	12.5%	Baillie Gifford (Global Alpha Fund)	Pooled	Active	MSCI All Countries Index plus 2.5%
	6.25%	State Street Global Asset	Pooled	Passive	FTSE All World Equity Index
	6.25%	State Street Global Asset	Pooled	Passive	FTSE RAFI All World 3000 Index
Multi Asset Strategy	15%	Baillie Gifford (Diversified Growth Fund)	Pooled	Active	UK Base Rate plus 3.5%
	20%	GMO Global Real return (UCITS)	Pooled	Active	OECD CPI g7 plus 3 - 5%
Absolute Return	15%	Ruffer	Segregated	Active	LIBOR+
Property	5%	UBS	Pooled	Active	IPD All balanced (property) Fund's median +
Gilt/Investment Bonds	17%	Royal London	Segregated	Active	• 50% iBoxx £ non- Gilt over 10 years • 16.7% FTSE Actuaries UK gilt over 15 years • 33.3% FTSE Actuaries Index-linked over 5 years Plus 1.25%*
Infrastructure	3%	State Street Global Assets –Sterling liquidity Fund Cash is invested pending identification of a local infrastructure project.			

*0.75% prior to 1 November 2015

1.6 UBS, SSgA, GMO and Baillie Gifford manage the assets on a pooled basis. Royal London and Ruffer manage the assets on a segregated basis. Performance is monitored by reference to the benchmark and out performance target. Each manager's individual performance is shown in this report with a summary of any key information relevant to their performance.

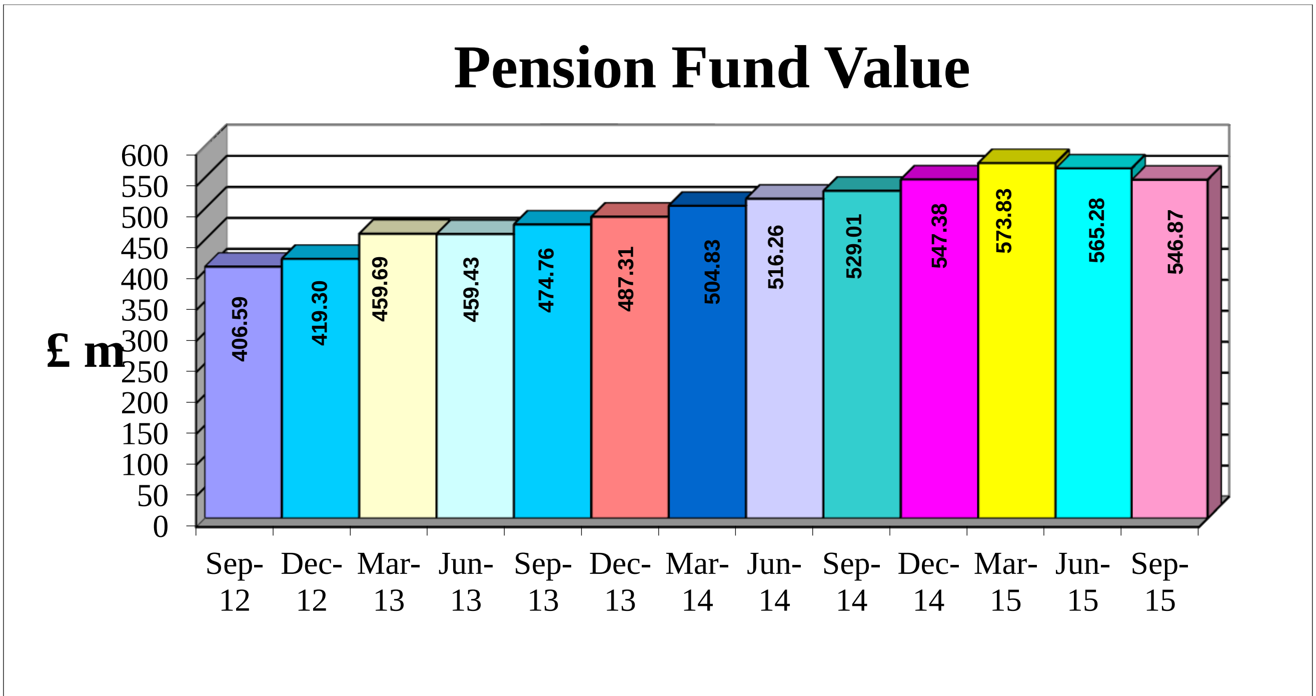
1.7 Since 2006, to ensure consistency with reports received from our Performance Measurers, Investments Advisors and Fund Managers, the 'relative returns' (under/over performance) calculations has been changed from the previously used arithmetical method to the industry standard geometric method (please note that this will sometimes produce figures that arithmetically do not add up).

1.8 Existing Managers are invited to present at the Pensions Committee Meeting every six months. On alternate dates, they meet with officers for a formal monitoring meeting. The exception to this procedure are the pooled Managers (SSgA, UBS, Baillie Gifford and GMO) and Ruffer who will attend two meetings per year, one with Officers and one with the Pensions Committee. However if there are any specific matters of concern to the Committee relating to the Managers performance, arrangements will be made for additional presentations.

1.9 Hyman's performance monitoring report is attached at **Appendix A.**

2. Fund Size

2.1 Based on information supplied by our performance measurers the total combined fund value at the close of business on 30 Sep 15 was **£546.87m**. This valuation differs from the basis of valuation used by our Fund Managers and our Investment Advisor in that it excludes accrued income. This compares with a fund value of £565.28m at the 30 Jun 15; a **decrease** of **£18.41m**. The movement in the fund value is attributable to a decrease in assets of £17.21m and a decrease in cash of £1.2m. The internally managed cash level stands at **£9.83m** of which an analysis follows in this report.



Source: WM Company (Performance Measurers)

2.2 An analysis of the internally managed cash balance of **£9.83m** follows:

CASH ANALYSIS	**2013/14 31 Mar 15**	**2014/15 31 Mar 15 Updated**	**2015/16 30 Sep 15**
	£000's	£000's	£000's
Balance B/F	**-3474**	**-5661**	**-7599**
Benefits Paid	32552	33568	17017
Management costs	2312	1600	336
Net Transfer Values	-1131	-135	470
Employee/Employer Contributions	-45659	-35306	-21518
Cash from/to Managers/Other Adj.	9825	-1618	1494
Internal Interest	-86	-47	-32
Movement in Year	**-2187**	**-1938**	**-2233**
Balance C/F	**-5661**	**-7599**	**-9832**

2.3 As agreed by members on the 27June 2012 a cash management policy has now been adopted. The policy sets out that should the cash level fall below the de-minimus amount of £2m this should be topped up to £4m. This policy includes drawing down income from the bond and property manager.

2.4 The cash management policy also incorporates a threshold for the maximum amount of cash that the fund should hold and officers are currently considering options available to address that the levels of cash exceed more than 1% of the fund assets. Officers are in the process of revising the cash management policy to reflect the current cash holding requirements and this will be submitted to the Pensions Committee at a later date.

3. Performance Figures against Benchmarks

3.1.1 The overall net performance of the Fund against the new **Combined Tactical Benchmark** (the combination of each of the individual manager benchmarks) follows:

	Quarter to 30.09.15	**12 Months to 30.09.15**	**3 Years to 30.09.15**	**5 years to 30.09.15**
Fund	-3.1%	2.6%	9.0%	7.7%
Benchmark return	-0.5%	4.3%	8.0%	7.3%
*Difference in return	-2.6%	-1.6%	0.9%	0.3%

Source: WM Company

**Totals may not sum due to geometric basis of calculation and rounding.*

3.1.2 The overall net performance of the Fund against the **Strategic Benchmark** (i.e. the strategy adopted of Gilts over 15 years + 1.8% Net of fees) is shown below:

	Quarter to 30.09.15	**12 Months to 30.09.15**	**3 Years to 30.09.15**	**5 years to 30.09.15**
Fund	-3.1%	2.6%	9.0%	7.7%
Benchmark return	5.8%	16.9%	9.7%	11.8%
*Difference in return	-8.4%	-12.2%	-0.6%	-3.7%

Source: WM Company

**Totals may not sum due to geometric basis of calculation and rounding.*

3.1.3 The following tables compare each manager's performance against their **specific (tactical) benchmark** and their **performance target** (benchmark plus the agreed mandated out performance target) for the current quarter and the last 12 months.

QUARTERLY PERFORMANCE (AS AT 30 SEPTEMBER 2015)

Fund Manager	**Return (Performance)**	**Benchmark**	**Performance vs benchmark**	**Target**	**Performance vs Target**
Royal London	2.28	2.30	**-0.02**	2.49	**-0.21**
UBS	3.45	2.99	**0.46**	n/a	**n/a**
Ruffer	-4.79	0.10	**-4.89**	n/a	**n/a**
SSgA	-5.82	-5.86	**0.04**	n/a	**n/a**
SSgA Sterling Liquidity Fund	0.12	0.09	**0.03**	n/a	**n/a**
Baillie Gifford (Global Alpha Fund)	-5.20	-5.90	**0.70**	-5.28	**-0.08**
Baillie Gifford (DGF)	-2.10	1.00	**-3.10**	n/a	**n/a**
GMO	-6.65	-0.03	**-6.62**	n/a	**n/a**

Source: WM Company, Fund Managers and Hymans

- Totals may not sum due to geometric basis of calculation and rounding.

ANNUAL PERFORMANCE (LAST 12 MONTHS)

Fund Manager	Return (Performance)	Benchmark	Performance vs benchmark	Target	Performance vs Target
Royal London	8.95	9.01	**-0.06**	9.76	**-0.81**
UBS	15.11	14.38	**0.73**	n/a	**n/a**
Ruffer	3.17	0.60	**2.57**	n/a	**n/a**
SSgA	0.52	0.51	**-0.01**	n/a	**n/a**
SSgA Sterling Liquidity Fund	0.50	0.36	**0.14**	n/a	**n/a**
Baillie Gifford (Global Alpha Fund)	4.90	0.40	**4.50**	2.90	**2.00**
Baillie Gifford (DGF)	0.90	4.00	**-3.10**	n/a	**n/a**

Source: WM Company, Fund Managers and Hymans

- Totals may not sum due to geometric basis of calculation and rounding.
- GMO not invested for entire period

4. Fund Manager Reports

4.1. UK Investment Grade Bonds (Bonds Gilts, UK Corporates, UK Index Linked, UK Other) – (Royal London Asset Management)

a) In accordance with agreed procedures officers met with representatives from Royal London on the 4 November 2015 at which a review of their performance as at 30 September 15 was discussed.

b) The value of the fund as at 30 September 15 increased by 2.26% on the previous quarter.

c) The fund achieved a net return of 2.28% during the quarter and under-performed the benchmark for the quarter by –0.02%. Royal London underperformed the benchmark over the one year period by -0.06% but ahead of benchmark three and five year periods, with relative returns of 1.04% and 1.04% respectively. Since inception they outperformed the benchmark by 0.64% but below the target by -0.11%.

d) Royal London reported on market events during the quarter:

- Government bonds (Gilts) returned 3.12% over the quarter, as the markets rallied on falling oil prices and equity market weakness. The Bank of England Monetary Policy Committee (MPC) maintained interest rates at current historical lows and UK CPI inflation was 0.0%. Royal London expect global government bonds to trend higher than current levels as economic data improves and we move closer to rate increases from both US Federal Reserve and the Bank of England.

- Index linked gilts returned 1.93% over the quarter; real yields fell across all maturities, as concerns over China and its impact on global growth escalate. A 25% collapse in the oil prices led to deflation concerns, despite average earning continuing to rise was a contributing factor in the downturn in returns this quarter. UK Government Index linked Bonds outperformed their global counterparts
- Sterling credit bonds returned 0.91% over the quarter. Weakening sentiments in the market due to Greece, China and fears of a US rate increase.
- Asset Allocation within the portfolio was 59% Sterling conventional Credit bonds, 28.4% Index linked sovereign bonds, 12.3% Sterling conventional gilts, 0.2% overseas conventional credit bonds and 0.1% in cash.

e) The portfolio changes during the quarter, has been to increase allocations in Conventional credit bonds, funded by the sale of Sterling conventional gilts and the majority of the remaining Overseas conventional credit bonds.

f) The main positive and negative contributors to performance during the quarter are as follows:

- Royal London maintained an underweight position to government bonds in favour of corporate bonds this quarter, concerns over emerging market economies, and in particular China, led to heightened risk aversion. This had a negative impact on the fund.

- Off benchmark positions in US Bonds detracted from performance but this was offset by tactical positioning in French and German government bonds

- The underweight exposure to consumer and industrial sectors was unchanged this quarter; industrial bonds were impacted by the commodity slowdown, in particular bonds of Glencore, and the emissions scandal at Volkswagen. The low weighting was a positive factor in relative performance. The fund has no exposure to Volkswagen and only a small position in Glencore bonds.

- Royal London maintained a significant overweight position in sectors that benefit from enhanced security, e.g. asset backed securities (ABS), social housing an investment trusts. The funds exposure to ABS was beneficial.

- Supranational bonds outperformed the overall sterling credit market due to the slowdown in China and problems in emerging markets, the underweight position in supranational debt had a negative impact on fund performance.

g) Royal London expects interest rates to rise in 2016 but as they have held this view for a few years, we asked if the interest rates remain unchanged, what affect this could have on the portfolio. They continued to be confident that they expect the interest rate to rise in 2nd quarter next year with another small rise by end of year. They said when oil process rise to normal level, inflation will rise which is the first step to a rate increase. If this does not happen they do not think this will not have an adverse effect on the portfolio as they have a positive well maintained position, also noting that credit companies do well when interest rates are low.

h) We asked Royal London, what changes they may make to the portfolio over the next quarter to reflect the higher return objective. They said they did not anticipate a problem in reaching the new targets; the new guidelines would have no negative impact. They were not going to make immediate changes but take gradual steps and will be looking closely before they move things around, concentrating on the long term objectives and risk profiles and minimising transaction costs.

i) Royal London were asked what are the risk to debt markets and the portfolio from the forthcoming EU referendum, and their views on any changes they may make to the portfolio in view of this. They said that do not expect the UK to leave the EU, the upset over the Greek situation and EU subsidies that the UK have to pay towards but get no benefit from are fuelling the referendum, but political influence is strong to keep EU together. The impact on debt markets if UK did leave the EU is that yields will start to fall again which would not be good news for the portfolio, but they said this is very unlikely but there are not enough clear facts one way or another to make any accurate prediction of outcome.

j) In light of the current focus on transparency of transaction costs Royal London were asked to consider how they will be reporting transactions costs going forward. They are currently into this at the moment and will report back soon.

k) No governance or whistle blowing issues were reported.

4.2. Property (UBS)

a) In accordance with agreed procedures officers will only meet with representatives from UBS once in the year with the other meeting to be held with members. UBS met with the members of the Pension Committee on the 17 March 2015 at which they covered the period ending up to 31 December 2014. Officers met with representatives from SSgA on the 20 August 2015 at which a review of their performance as at 30 June 15 was discussed.

b) UBS delivered a return of 3.45% over the quarter, outperforming the benchmark by 0.46%. The Fund is ahead of the benchmark over the year by 0.73%.

4.3. Multi Asset Manager (Ruffer)

a) In accordance with agreed procedures officers will only meet with representatives from Ruffer once in the year with the other meeting to be held with members. Officers last met with representatives from Ruffer on 05 February 2015 at which a review of their performance as at 31 December 2014 was discussed. The Pensions Committee last met with Ruffer at the 22 September 2015 meeting at which their performance as at the end of June 15 was discussed.

b) Ruffer delivered a return of -4.79% (net of fees) over the quarter, underperforming the benchmark by -4.89%. The Fund is ahead of the benchmark over the year by 2.57%.

4.4. Passive Equities Manager (SSgA)

a) In accordance with agreed procedures officers will only meet with representatives from SSgA once in the year with the other meeting to be held with members. SSgA last met with the members of the Pension Committee on the 17 March 2015 at which they covered the period ending up to 31 December 2014. Officers met with representatives from SSgA on the 11 May 2015 at which a review of their performance as at 31 March 15 was discussed.

b) Representatives from SSgA are due to make a presentation at this Committee therefore a brief overview of their performance as at 30 September 2015 follows.

b) The SSgA Sterling Liquidity fund has outperformed the benchmark by 0.03% over the quarter. Since inception they have outperformed the benchmark by 0.13%

c) The SSgA passive Equity mandate has outperformed the benchmark by 0.04% over the quarter. Since inception they performed in line with the benchmark.

d) Hymans presented a paper to members on the options of switching indices on the 23 June 2015 which incorporated a training session on this topic prior to the meeting. Members agreed to transfer 50% of the assets held in the SSgA's passive All World Equity Index to SSgA's Fundamental Index Global Equity Fund (adopting the FTSE RAFI 3000 Index). £18m was transferred to the Fundamental Index on the 19 August 2015

e) At the same meeting members agreed to rebalance the allocations between SSgA and Baillie Gifford (Global Alpha) so as to increase the weighting to the SSgA mandate to 12.5% of assets. £16.5m was transferred from Baillie Gifford on the 19 August 2015.

4.5. Global Equities Manager (Baillie Gifford)

a) Representatives from Baillie Gifford are due to make a presentation at this Committee therefore a brief overview of their performance as at 30 September 2015 follows.

b) The value of the fund decreased by -5.20% over the last quarter.

c) Baillie Gifford Global Alpha Mandate has outperformed the benchmark over the last quarter by 0.70% (net of fees) and outperformed the benchmark over the last year by 4.50% (net of fees).

d) At the pensions Committee meeting held on the 23 June 2015 members agreed to rebalance the allocations between SSgA and Baillie Gifford so as to increase the weighting to the SSgA mandate to 12.5% of assets. This will result in the target 25% allocation to equities split equally between the two managers. £16.5m was disinvested with Baillie Gifford and transferred to SSgA on the 19 August 2015.

4.6. Multi Asset Manager (Baillie Gifford Diversified Growth Fund)

a) Representatives from Baillie Gifford are due to make a presentation at this Committee therefore a brief overview of their performance as at 30 September 2015 follows.

b) The value of the fund has seen a decrease in value of -2.10% over the last quarter.

c) Baillie Gifford Diversified Growth Mandate has underperformed the benchmark by -3.10% over the last quarter and underperformed against the benchmark over the year by -3.10%.

4.7. Multi Asset Manager (GMO – Global Real Return (UCITS) Fund)

a) In accordance with agreed procedures officers will only meet with representatives from GMO once in the year with the other meeting to be held with members. GMO met with the members of the Pension Committee on the 23 June 2015 at which they covered the period ending up to 31 March 2015. Officers met with representatives from GMO on the 5 November 2015.

b) The fund achieved a net return of -6.65% during the quarter and under-performed the benchmark for the quarter by –6.62%. GMO underperformed the benchmark since inception by -6.94%.

c) The GMO investment is in a dynamic multi-asset fund, the GMO Global Real Returns UCITS Fund (GRRUF) and targets a return of CPI+5% (net of fees) over a full 7 year cycle. The Fund invests globally in equities, debt, money market instruments, currencies, instruments relating to commodities indices, REITS and related derivatives.

d) GMO philosophy is to buy undervalued assets with a long term view to assets returning to fair value.

e) The asset allocation within the portfolio was 43%Equities, 16% Alternative strategies, 17% Fixed Income and 25% Cash/Cash Plus.

f) The main portfolio change over the quarter was a 5% increase in equities. The movements in equities being from developed to emerging market equities. GMO feel that emerging markets is still the best option for future growth, although they said these were long term investment which may not show a profit for a while, but should increase to fair value eventually. This is in line with their investment philosophy.

g) The Fixed Income allocation reduced by 9% but this was mainly due to the reclassification of their value interest rates and FX exposure from Fixed Income to Alternative Strategies.

h) The allocation to emerging market equities was the main detractor from performance, this being attributable to bad timing on their part as emerging markets fell just after they increased the holding but they are still confident that increasing the exposure to emerging markets was the correct decision.

i) GMO were asked if their position in equities reflect a bullish view on equities or lack of growth opportunities elsewhere. GMO stated that they felt that there is a lack of opportunities elsewhere and equities are expensive at the moment. This was the main reason why they switched from developed equities to emerging markets where they feel the most value can be obtained.

j) We asked why GMO had added defensive positions in the form of Treasury Inflation Protected Securities (TIPS) and they explained that as part of their strategy they would hold cash when there were no clear market opportunities to enable them to take quick advantage of investment opportunities when they arise. Investments in TIPS, although not as liquid as cash, are a treasury security that is indexed to inflation in order to protect against the negative effects of inflation. They are considered extremely low risk since they are backed by the US government. They can realise these investment within 5-10 days.

k) The portfolio is currently holding 25% in cash/cash plus and GMO were asked how long they were prepared to hold this position. GMO stated they do not have a strategy on how much and for how long but the level of cash at the moment is just a reflection of the lack of investment opportunities available. However they do have a view that holding a significant amount in cash means that they can react quickly to market changes.

l) We had a discussion with GMO about the London Collective Investment Vehicle (CIV) and the broader pooling arrangements. GMO said that they were very enthusiastic about joining the CIV and the only constraint to them qualifying to be considered at the moment is that their management fees are too high. They explained that they would require another Local Authority under their management before they were in a position to lower their fees.

m) No governance or whistle blowing issues were reported.

5. Corporate Governance Issues

The Committee, previously, agreed that it would:

1. Receive quarterly information from each relevant Investment Manager, detailing the voting history of the Investment Managers on contentious issues. This information is included in the Managers' Quarterly Reports, which will be distributed to members electronically.

2. Receive quarterly information from the Investment Managers, detailing new Investments made.

    - Points 1 and 2 are contained in the Managers' reports.

3. Voting – Where the fund does not hold a pooled equity holding, Members should select a sample of the votes cast from the voting list supplied by the managers (currently only Ruffer) which is included within the quarterly report and question the Fund Managers regarding how Corporate Governance issues were considered in arriving at these decisions.

This report is being presented in order that:

- The general position of the Fund is considered plus other matters including any general issues as advised by Hymans.

- Hymans will discuss the managers' performance after which the particular manager will be invited to join the meeting and make their presentation. The manager attending the meeting will be from:

  Baillie Gifford (DGF and Global Alpha Fund) and SSgA (UK/Global Equities Passive Manager)

- Hymans and Officers will discuss with Members any issues arising from the monitoring of the other managers.

IMPLICATIONS AND RISKS

Financial implications and risks:

Pension Fund Managers' performances are regularly monitored in order to ensure that the investment objectives are being met and consequently minimise any cost to the General Fund

Legal implications and risks:

None arising directly

Human Resources implications and risks:

There are no immediate HR implications. However longer term, shortfalls may need to be addressed depending upon performance of the fund.

Equalities implications and risks:

None arising that directly impacts on residents or staff.

BACKGROUND PAPERS

Royal London Quarterly report to 30 September 2015
UBS Quarterly report to 30 September 2015
Ruffer Quarterly report 30 September 2015
State Street Global Assets report to 30 September 2015
Baillie Gifford Quarterly Reports 30 September 2015
GMO Quarterly Report 30 September 2015
The WM Company Performance Review Report to 30 September 2015

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
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